

POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

ABOUT TRS

TRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2018, the Plan consisted of 598 participating employers comprised of state institutions of higher education, state education entities, local school districts as well as career tech districts. The membership includes 88,534 active members, 12,243 inactive vested members, 13,315 inactive non-vested and 63,796 retirees and beneficiaries for a total of 177,888 members.

COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2018 Popular Annual Financial Report of the Teachers' Retirement System of Oklahoma (TRS) contains summary financial information from the 2018 Comprehensive Annual Financial Report. The full report can be viewed in its entirety online at www.ok.gov/TRS/Publications/Annual_Report.html.

TRS Has Another Great Year in FY 2018

Dear Members:

We are proud to issue the Teachers' Retirement System Popular Annual Financial Report (PAFR) for FY 2018. This publication is not only for the benefit of our membership but also for our many stakeholders and state leaders who are interested in the financial condition of TRS. It is a summarized version of the System's official Comprehensive Annual Financial Report (CAFR) written in laymen's terms. It is not presented in a manner which conforms with generally accepted accounting principles (GAAP). It's shorter than the CAFR, but it still contains the most important statistics of your retirement plan. TRS' CAFR is prepared to conform to GAAP and as noted in the lower left portion of this page is available online.

TRS had another outstanding year with its investment performance with a 10% gross return. In addition, the System achieved the highest actuarial funded ratio (72.9%) in its 75 year history! The members of TRS rely on the continuing viability and fiscal strength of the System. Their retirement security depends on it. Our public educators and support staff members are crucial to the State's economy and quality of life. TRS is the oldest and largest state pension plan. The System serves about 175,000 active, inactive and retired members who are currently or formerly employed by nearly 600 employers. Not only is it important for our members and stakeholders to know the financial status of the System, but it's also important for Oklahoma citizens to have this information. We at TRS are proud to serve Oklahoma's educators and staff. The entire state benefits from the retirement income security TRS provides to its clients. Your retirement system has been providing this service for more than seven decades and we want to be a part of this State's bright future. We strive every year for excellence and will work to continue the historic success we enjoyed this year.

Tom Spencer
Executive Director

2018 TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
POPULAR ANNUAL FINANCIAL REPORT

PLAN NET POSITION

The "Plan net position" is calculated by taking the amount of assets of TRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions to TRS clients. A summary of net position restricted for benefits on June 30, 2018, 2017 and 2016, is shown to the right. As of June 30, 2018, TRS' net position was approximately \$16.79 billion. For simplicity, the 401(a), 403(b) and OPEB assets and liabilities on these schedules are combined. A separate schedule for the OPEB plan is on page 4 of the PAFR.

CHANGES IN PLAN NET POSITION

TRS is funded through a combination of member contributions, employer contributions, dedicated state revenue and investment earnings. For fiscal year 2018, plan net position increased \$1,157,905,561 or 7.4%. The increase was primarily from positive investment performance. Deductions to plan net position are incurred primarily for the purpose for which TRS was created, namely the payment of benefits to retirees. In fiscal year 2018, retirement, death and survivor benefits increased \$48,750,158 or 3.7% due to a 2.3% increase (1,405 members) in the number of retired members and a 1.4% increase in the average benefit. Refunds and withdrawals decreased slightly by \$211,019 or 1.00% as fewer participants withdrew their contributions on severance of service in fiscal 2018. Administrative costs increased slightly by \$156,911 (or 3.8%).

BENEFITS PAID TO MEMBERS

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals

CONDENSED SCHEDULE OF FIDUCIARY NET POSITION

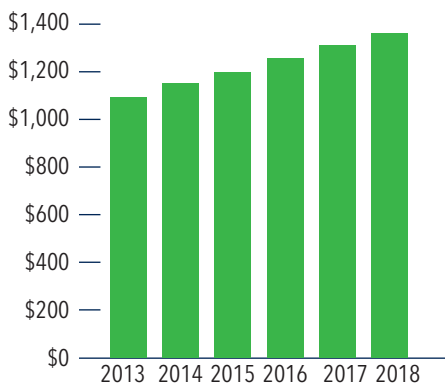
JUNE 30,				
	2018	2017	2016	
ASSETS:				
Cash	\$ 14,647,016	\$ 6,982,258	\$ 19,857,301	
Receivables	336,640,442	234,896,886	389,393,726	
Investments	16,785,027,025	15,623,835,941	14,058,889,353	
Securities Lending Collateral	1,729,963,543	1,699,984,799	1,624,015,378	
Capital Assets, Net	4,500,123	4,293,304	4,072,745	
Total Assets	18,870,778,149	17,569,993,188	16,096,228,503	
LIABILITIES:				
Other Liabilities	345,111,757	232,211,101	478,182,808	
Securities Lending Collateral	1,729,963,543	1,699,984,799	1,624,015,378	
Total Liabilities	2,075,075,300	1,932,195,900	2,102,198,186	
Net Position Restricted For Pensions	\$ 16,795,702,849	\$ 15,637,797,288	\$ 13,994,030,317	

CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

JUNE 30,				
	2018	2017	2016	
Member Contributions	\$ 312,866,576	292,949,337	\$ 294,459,091	
Employer Contributions	415,981,030	403,256,970	409,753,221	
Matching Contributions	26,437,350	23,027,846	25,787,244	
Dedicated Tax Revenue	318,172,751	278,924,055	289,884,752	
Member Tax Shelter Contributions	1,723,454	2,548,206	2,222,812	
Net Investment Income Gain (Loss)	1,500,561,135	2,011,242,293	(362,477,638)	
Security Lending Net Income	7,746,700	8,705,649	7,870,757	
Total Additions	2,583,488,996	3,020,654,356	667,500,239	
Benefit Payments	1,360,875,891	1,312,125,733	1,257,276,705	
Refunds Of Member Contributions And Tax Sheltered Annuity	60,496,096	60,707,115	55,841,270	
Administrative Expenses	4,211,448	4,054,537	4,458,338	
Total Deductions	1,425,583,435	1,376,887,385	1,317,576,313	
Net Increase (Decrease) In Net Position	\$ 1,157,905,561	1,643,766,971	\$ (650,076,074)	

or exceeds 80 (Rule of 80), and for any person who became a member on or after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 minimum age 60 if the participant became a member on or after November 1, 2011.

SCHEDULE OF BENEFIT PAYMENTS (in Millions)



The Schedule of Benefit Payments above provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits. These totals have risen rapidly from \$1.09 billion in FY 2013 to \$1.36 billion in FY 2018.

INVESTMENTS

The Board of Trustees follows the "Prudent Investor Rule" which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our members and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The Plan's overall investment return for the year ended June 30, 2018, was a gross return of 10.00% and net 9.69%. Plan returns

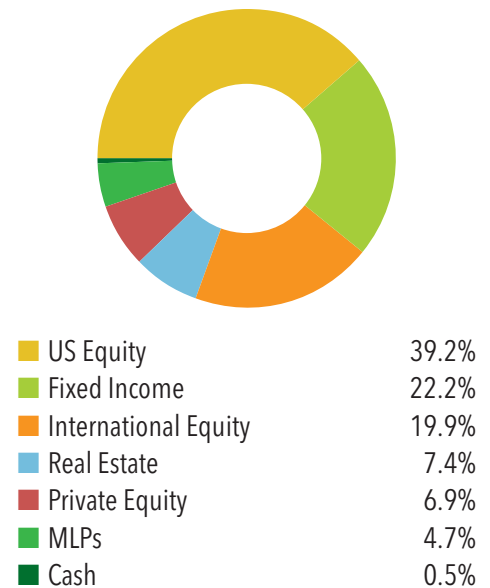
are primarily determined by how investments are diversified across asset classes. Domestic equity returns were up solidly for the year. Domestic equity gained a net return of 15.5%. Private equity and private credit investments returned 15.43% for the year. Core real estate had a net return of 6.98% and non-core real estate was 5.14%. Total fixed income net returns were a disappointing 0.96% due to rising interest rates. The System's Master Limited Partnership investments were hit hard by changes in the tax structure for such investments. Net returns for MLPs were negative at (2.03%). The Rate of Return table below reflects overall investment returns for the Plan over the past five fiscal years.

RATE OF RETURN	
Year Ending June 30,	Total
2018	10.0%
2017	15.3%
2016	-2.02%
2015	3.5%
2014	22.4%

The Board of Trustees has established the Statement of Investment Policy to guide investment decisions and outline the overall investment philosophy of the Plan. The primary investment goal of the Plan is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan are invested to ensure that principal is preserved and enhanced over time. All investments are managed by external investment managers. The managers are required to adhere to the investment policy and their respective mandates, but may use full discretion within the policy and guidelines. In the pursuit of long-term returns while maintaining the goal of capital preservation, TRS has adopted

a diversified asset allocation policy that is carried out primarily through active management. The resulting portfolio is designed to enhance long-term returns while mitigating short-term volatility. At fiscal year end, the portfolio was managed by 32 investment management firms across several asset classes and areas of expertise. As stated previously investments in FY 2018 provided a gross return of 10.00%. The annualized rate of return was 7.5% over the last three years and 9.5% over the last five years. The allocation of the investment portfolio as of June 30, 2018 is shown in the Asset Mix chart below.

ASSET MIX June 30, 2018

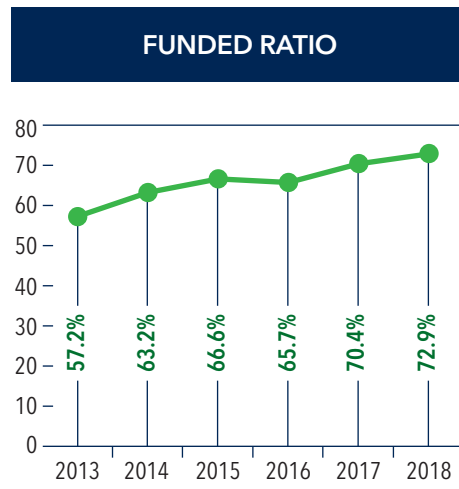


FUNDING

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for TRS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued

liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability (the amount the System owes) and actuarial value of assets (the amount the System has) of TRS as of July 1, 2018, amounted to \$ 22.6 billion and \$16.48 billion, respectively.

The TRS funded status was 72.9% at June 30, 2018, compared to 70.4% at June 30, 2017. The key items responsible for the improvement in funded status were a significant asset gain from investment performance, and dedicated revenue receipts were also higher. The Funded Ratio chart above shows the change in funded status over the past five fiscal years.



NEW ACCOUNTING STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

TRS must follow accounting standards established by the Governmental Accounting Standards Board (GASB). In FY 2017 TRS implemented a new accounting standard called GASB 74 that applies to accounting for “other postemployment benefits” or OPEB. TRS provides a monthly health insurance subsidy to its retirees who keep their employer-based health insurance in retirement. This amount varies from \$100 to \$105 based on the credited service years of the retiree, and their benefit amount. It is paid directly to the insurer or the retiree’s former employer. GASB 74 requires TRS to treat this supplemental benefit like a separate benefit plan for accounting purposes. The liabilities to TRS from these OPEB payments must be separately stated, and an amount of assets must be identified that are available to pay the benefits. Above are condensed schedules of the TRS OPEB “net position” and the changes in net position. As indicated on page 4, these assets and liabilities are included in the main schedules for the total plan. In FY 2018 GASB 75 was also implemented statewide meaning that many TRS employers had to reflect their proportionate share of OPEB liabilities in their financial statements.

CONDENSED SCHEDULE OF OPEB NET POSITION		
JUNE 30, 2018		
Assets	\$	535,759,528
Liabilities		51,703,367
Net Position for OPEB	\$	484,056,161

CONDENSED SCHEDULE OF CHANGES IN OPEB NET POSITION		
JUNE 30, 2018		
Additions	\$	47,672,988
Deductions		36,975,047
Net Increase (Decrease) in Net OPEB Position	\$	10,697,941

TRS AWARDED FOR EXCELLENCE IN FINANCIAL REPORTING AND POPULAR FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Annual Financial Reporting to the Teachers’ Retirement System of Oklahoma for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To receive an Award for Outstanding Achievement in Annual Financial Reporting, a government unit must publish a Comprehensive Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Annual Financial Reporting is valid for a period of one year only. TRS has received the award for the last 25 consecutive years. We believe our current CAFR continues to conform to the award requirements, and it has been submitted to the GFOA.

In addition, TRS also received an award from the GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its submission in FY 2017. This was the 3rd consecutive year TRS received this award. We will continue to strive for excellence and we look forward to continuing our commitment to quality financial reporting of all kinds.